

CITY OF LAMONI - LAMONI MUNICIPAL UTILITIES

INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

DECEMBER 31, 2004

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City of Lamoni - Lamoni Municipal Utilities

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Hammer	Mayor	Jan 2006
Janelle Anders	Council Member/Mayor Pro tem	Jan 2006
Mark Ballantyne	Council Member	Jan 2006
Ted Smith	Council Member	Jan 2006
Steve Murdock	Council Member	Jan 2008
Roger Potts	Council Member	Jan 2008

City of Lamoni - Lamoni Municipal Utilities

# CLINE, DEVRIES & ALLEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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Clive, Iowa 50325  
Phone:515-252-7141 FAX:515-252-7073

## Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the business type activities of the City of Lamoni - Lamoni Municipal Utilities, Iowa, as of and for the year ended December 31, 2004, which collectively comprise the Utilities basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Lamoni - Lamoni Municipal Utilities management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements present only the Electric Utility, Gas Utility, Water Utility and Sewer Utility Funds and are not intended to present fairly the financial position and results of operations of the City of Lamoni in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the City of Lamoni - Lamoni Municipal Utilities at December 31, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 16 to the financial statements, for the year ended December 31, 2004, the City of Lamoni - Lamoni Municipal Utilities adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated January 27, 2005 on our consideration of the City of Lamoni - Lamoni Municipal Utilities internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Lamoni - Lamoni Municipal Utilities basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended December 31, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 27, 2005  
Ames, Iowa

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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City of Lamoni - Lamoni Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2004. We encourage readers to consider this information in conjunction with the Utilities financial statements, which follow.

Because the City of Lamoni - Lamoni Municipal Utilities is implementing new reporting standards for this year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Utilities financial position and results of operations.

### 2004 FINANCIAL HIGHLIGHTS

- Revenues of the Utilities proprietary activities increased 2.7%, or approximately \$84,000, from 2003 to 2004.
- Program expenses increased 4.3%, or approximately \$135,000, in 2004 from 2003.
- The Utilities net assets decreased 2.6%, or approximately \$112,000, from 2003 to 2004.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities financial activities.

Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the City of Lamoni - Lamoni Municipal Utilities as a whole and present an overall view of the Utilities finances.

The Fund Financial Statements tell how proprietary services were financed in the short term as well as what remains for future spending.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities budget for the year.

Other Supplementary Information provides detailed information about the operating revenues and expenses and property, plant and equipment.

### REPORTING THE UTILITIES FINANCIAL ACTIVITIES

#### Financial Statements

One of the most important questions asked about the Utilities finances is, "Is the Utilities as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These

statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the Utilities assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the Utilities net assets may serve as a useful indicator of whether the financial position of the Utilities is improving or deteriorating.

The Statement of Activities presents information showing how the Utilities net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report the following activities:

- Business type activities include the electric, water, sewer and gas departments. These activities are financed primarily by user charges.

#### Fund Financial Statements

Proprietary funds account for the Utilities Enterprise Funds. These funds report services for which the Utilities charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The Enterprise Funds include the Electric, Water, Sewer and Gas Funds, each considered to be a major fund of the Utilities. The Utilities is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

#### FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for business type activities.



Net Assets December 31, 2004	
	Business Type Activities
Current and other assets	\$ 2,435,621
Capital assets	4,045,375
Total assets	6,480,996
Long-term liabilities	1,829,584
Other liabilities	501,226
Total liabilities	2,330,810
Net assets:	
Contributions from other governments	212,267
Invested in capital assets, net of related debt	2,221,740
Restricted	23,677
Unrestricted	1,692,502
Total net assets	\$ 4,150,186

Net assets of business type activities decreased from 2003 by approximately \$112,000, or 2.6%. The largest portion of the Utilities net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used.

Changes in Net Assets Year ended December 31, 2004	
	Business Type Activities
Revenues:	
Program revenues:	
Charges for service	\$ 3,051,835
General revenues:	
Unrestricted interest on investments	31,189
Miscellaneous	91,415
Total revenues	3,174,439
Expenses:	
Electric	1,676,980
Water	467,014
Sewer	301,106
Gas	841,807
Total expenses	3,286,907
Increase in cash basis net assets	(112,468)
Net assets beginning of year (as restated)	4,262,654
Net assets end of year	\$ 4,150,186

## INDIVIDUAL MAJOR FUND ANALYSIS

### Proprietary Fund Highlights

The Electric Fund, which accounts for the operation and maintenance of the Utilities electric system, ended fiscal 2004 with a \$1,066,533 net asset balance compared to the prior year ending net asset balance of \$1,070,134 (as restated).

The Water Fund, which accounts for the operation and maintenance of the Utilities water system, ended fiscal 2004 with a \$1,206,770 net asset balance compared to the prior year ending net asset balance of \$1,255,242.

The Sewer Fund, which accounts for the operation and maintenance of the Utilities wastewater treatment and sanitary sewer system, ended fiscal 2004 with a \$1,164,322 net asset balance compared to the prior year ending net asset balance of \$1,236,845.

The Gas Fund, which accounts for the operation and maintenance of the Utilities gas system, ended fiscal 2004 with a \$712,561 net asset balance compared to the prior year ending net asset balance of \$700,433.

### BUDGETARY HIGHLIGHTS

Over the course of the year, the City of Lamoni - Lamoni Municipal Utilities did not amend its budget.

The Utilities did not exceed the budgeted amounts for the year ended December 31, 2004.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

The Utilities capital assets include land, buildings and improvements, equipment and electric, water, sewer and gas distribution systems. Capital assets for business type activities totaled \$4,045,375 (net of accumulated depreciation) at December 31, 2004. See Note 3 to the financial statements for more information about the Utilities capital assets.

For business type activities, major additions included a computer based filter turbidity data acquisition system for the water plant.

Construction in progress at December 31, 2004 for business type activities consists primarily of distribution system improvements.

#### Long-Term Debt

Total long-term debt outstanding for business type activities was \$1,834,000 at December 31, 2004. During the year ended December 31, 2004, the Utilities issued a total of \$700,000 in water revenue refunding bonds to refinance the Utilities 1993 water revenue bonds.

### CONTACTING THE UTILITIES FINANCIAL MANAGEMENT

This financial report is designed to present our customers and creditors with a general overview of the Utilities finances and operating activities. If you have any questions or require additional information please contact the Office Manager, 111 S. Chestnut Street, Lamoni, Iowa.

## Basic Financial Statements

## City of Lamoni - Lamoni Municipal Utilities

## Statement of Net Assets

December 31, 2004

	Business Type Activities
Assets	
Cash, cash equivalents and investments	\$ 412,177
Receivables:	
Accounts - net	305,798
Unbilled usage	231,632
Interest	10,568
Due from other funds	125,000
Prepaid expenses	152,350
Inventories	100,910
Restricted assets:	
Cash, cash equivalents and investments	138,058
Designated assets:	
Cash, cash equivalents and investments	959,128
Capital assets (net of accumulated depreciation)	4,045,375
Total assets	<u>6,480,996</u>
Liabilities	
Accounts payable	127,988
Accrued wages and benefits	127,318
Due to other funds	125,000
Other liabilities	120,920
Long-term debt:	
Portion due or payable within one year:	
Accrued revenue bond interest	5,949
Revenue bonds	168,000
Portion due or payable after one year:	
Revenue bonds (Water: net of \$10,365 unamortized discount)	<u>1,655,635</u>
Total liabilities	<u>2,330,810</u>
Net Assets	
Contributions from other governments	212,267
Invested in capital assets, net of related debt	2,221,740
Restricted for:	
Revenue bond sinking fund	23,677
Unrestricted:	
Designated for:	
Future equipment purchases/capital improvements	535,370
Insurance	35,984
Customer deposits	74,381
Revenue bond reserve fund	350,601
Undesignated	696,166
Total net assets	<u><u>\$ 4,150,186</u></u>

See notes to financial statements.

## City of Lamoni - Lamoni Municipal Utilities

## Statement of Activities

Year ended December 31, 2004

	Program Revenues				Net (Expense) Revenue and
	Operating Grants, Contributions and Restricted		Capital Grants, Contributions and Restricted		Changes in Net Assets
	Expenses	Charges for Service	Interest	Interest	Business Type Activities Total
Functions/Programs:					
Business type activities:					
Electric	\$ 1,676,980	1,587,041	-	-	(89,939)
Water	467,014	843,729	-	-	376,715
Sewer	301,106	404,451	-	-	103,345
Gas	841,807	216,614	-	-	(625,193)
Total business type activities	<u>\$ 3,286,907</u>	<u>3,051,835</u>	<u>-</u>	<u>-</u>	<u>(235,072)</u>
General revenues:					
Unrestricted investment earnings					31,189
Miscellaneous					91,415
Total general revenues					<u>122,604</u>
Change in net assets					(112,468)
Net assets beginning of year					4,246,574
Prior period adjustment (note 13)					<u>16,080</u>
Net assets end of year					<u>\$ 4,150,186</u>

See notes to financial statements.

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City of Lamoni - Lamoni Municipal Utilities

## City of Lamoni - Lamoni Municipal Utilities

Statement of Net Assets  
Proprietary Funds

December 31, 2004

	Enterprise Funds				Total
	Electric	Gas	Water	Sewer	
Assets					
Current assets:					
Cash, cash equivalents and investments	\$ 239,671	(103,738)	89,841	186,403	412,177
Receivables:					
Accounts - net	150,353	101,653	36,234	17,558	305,798
Unbilled usage	87,897	113,253	19,951	10,531	231,632
Interest	2,739	1,582	1,932	4,315	10,568
Due from other funds	-	125,000	-	-	125,000
Prepaid expenses	12,331	132,637	5,447	1,935	152,350
Inventories	64,206	7,521	24,641	4,542	100,910
Total current assets	557,197	377,908	178,046	225,284	1,338,435
Restricted assets:					
Cash, cash equivalents and investments	138,058	-	-	-	138,058
Property, plant and equipment:					
Land	3,402	2,575	126,496	4,651	137,124
Plant distribution systems	4,180,876	1,063,248	2,485,805	1,250,823	8,980,752
Vehicles and equipment	127,013	124,827	66,192	41,409	359,441
North woods lake	-	-	1,220,350	-	1,220,350
Computer mapping	23,537	16,235	6,423	2,792	48,987
Home pond water shed	-	-	36,500	-	36,500
Wastewater improvements	-	-	-	1,515,311	1,515,311
Total property, plant and equipment	4,334,828	1,206,885	3,941,766	2,814,986	12,298,465
Less accumulated depreciation	3,698,187	949,512	2,486,197	1,119,194	8,253,090
Net property, plant and equipment	636,641	257,373	1,455,569	1,695,792	4,045,375
Other assets:					
Designated assets:					
Cash, cash equivalents and investments	130,410	132,766	416,743	279,209	959,128
Total assets	\$ 1,462,306	768,047	2,050,358	2,200,285	6,480,996

See notes to financial statements.

## City of Lamoni - Lamoni Municipal Utilities

Statement of Net Assets  
Proprietary Funds

December 31, 2004

	Enterprise Funds				Total
	Electric	Gas	Water	Sewer	
Liabilities and Fund Balances					
Current liabilities:					
Accounts payable	\$ 90,933	29,931	6,808	316	127,988
Accrued wages and benefits	75,052	24,087	19,123	9,056	127,318
Due to other funds	-	-	125,000	-	125,000
Accrued revenue bond interest	-	-	2,802	2,560	5,362
Revenue bonds	-	-	90,000	43,000	133,000
Other liabilities	119,200	1,469	220	31	120,920
Total current liabilities	285,185	55,487	243,953	54,963	639,588
Current liabilities payable from restricted assets:					
Accrued revenue bond interest	587	-	-	-	587
Revenue bonds	35,000	-	-	-	35,000
Total current liabilities payable from restricted assets	35,587	-	-	-	35,587
Long-term debt:					
Revenue bonds (Water: net of \$10,365 unamortized discount)	75,000	-	599,635	981,000	1,655,635
Total liabilities	395,772	55,487	843,588	1,035,963	2,330,810
Fund equity:					
Contributions from other governments	2,047	14,714	58,696	136,810	212,267
Fund balances:					
Invested in capital assets, net of related debt	526,641	257,373	765,934	671,792	2,221,740
Restricted for revenue bond sinking fund	23,677	-	-	-	23,677
Unrestricted:					
Designated for:					
Future equipment purchases/capital improvements	112,250	126,672	192,362	104,086	535,370
Insurance	18,160	6,094	8,930	2,800	35,984
Customer deposits	74,381	-	-	-	74,381
Revenue bond reserve fund	40,000	-	138,278	172,323	350,601
Undesignated	269,378	307,707	42,570	76,511	696,166
Total fund balances	1,064,487	697,846	1,148,074	1,027,512	3,937,919
Total liabilities and fund balances	\$ 1,462,306	768,047	2,050,358	2,200,285	6,480,996



## City of Lamoni - Lamoni Municipal Utilities

Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds

Year ended December 31, 2004

	Enterprise Funds				Total
	Electric	Gas	Water	Sewer	
Operating revenues:					
Charges for service	\$ 1,587,041	843,729	404,451	216,614	3,051,835
Miscellaneous	77,263	6,102	3,350	4,700	91,415
Total operating revenues	1,664,304	849,831	407,801	221,314	3,143,250
Operating expenses:					
Business type activities:					
Plant operation	1,051,831	618,663	137,945	86,786	1,895,225
Distribution	130,502	33,457	30,244	15,940	210,143
Accounting and collection	65,674	38,516	24,302	8,084	136,576
Administration	331,253	123,122	77,799	37,192	569,366
Depreciation	89,815	28,049	138,444	121,843	378,151
Total operating expenses	1,669,075	841,807	408,734	269,845	3,189,461
Operating income	(4,771)	8,024	(933)	(48,531)	(46,211)
Non-operating revenues (expenses)					
Interest income	6,396	3,946	6,658	7,229	24,229
Rent income	2,680	157	4,083	40	6,960
Interest expense	(7,905)	-	(49,410)	(31,261)	(88,576)
Bond discount amortization	-	-	(8,870)	-	(8,870)
Total non-operating revenues (expenses)	1,171	4,103	(47,539)	(23,992)	(66,257)
Change in net assets	(3,600)	12,127	(48,472)	(72,523)	(112,468)
Net assets beginning of year	1,054,054	700,433	1,255,242	1,236,845	4,246,574
Prior period adjustment (note 13)	16,080	-	-	-	16,080
Net assets end of year	\$ 1,066,534	712,560	1,206,770	1,164,322	4,150,186

See notes to financial statements.

## City of Lamoni - Lamoni Municipal Utilities

Statement of Cash Flows  
Proprietary Funds

Year ended December 31, 2004

	Enterprise Funds				Total
	Electric	Gas	Water	Sewer	
Cash flows from operating activities:					
Cash received from customers and users	\$ 1,582,118	777,150	399,323	215,690	2,974,281
Cash received from other revenues	77,263	6,102	3,350	4,700	91,415
Cash paid for personal services	(476,455)	(159,074)	(139,342)	(87,306)	(862,177)
Cash paid to suppliers	(1,090,934)	(666,797)	(136,827)	(62,627)	(1,957,185)
Net cash provided by operating activities	91,992	(42,619)	126,504	70,457	246,334
Cash flows from capital and related financing activities:					
Bond proceeds (net of discount and interest)	-	-	690,414	-	690,414
Principal paid on revenue notes	(35,000)	-	(755,000)	(43,000)	(833,000)
Interest paid on revenue notes	(8,143)	-	(50,073)	(31,368)	(89,584)
Net cash used for capital and related financing activities	(43,143)	-	(114,659)	(74,368)	(232,170)
Cash flows from investing activities:					
Acquisition of capital assets	(36,527)	(10,044)	(57,006)	(15,669)	(119,246)
Rent income	2,680	157	4,083	40	6,960
Interest on investments	6,460	4,988	6,924	7,042	25,414
Net cash provided by investing activities	(27,387)	(4,899)	(45,999)	(8,587)	25,414
Net increase (decrease) in cash, cash equivalents and investments	21,462	(47,518)	(34,154)	(12,498)	(72,708)
Cash, cash equivalents and investments beginning of year	486,677	76,546	540,738	478,110	1,582,071
Cash, cash equivalents and investments end of year	\$ 508,139	29,028	506,584	465,612	1,509,363

See notes to financial statements.

## City of Lamoni - Lamoni Municipal Utilities

Statement of Cash Flows  
Proprietary Funds

Year ended December 31, 2004

	Enterprise Funds				
	Electric	Gas	Water	Sewer	Total
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ (4,771)	8,024	(933)	(48,531)	(46,211)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:					
Depreciation	89,815	28,049	138,444	121,843	378,151
Changes in operating assets and liabilities:					
Accounts receivable	2,703	(29,381)	(1,825)	170	(28,333)
Unbilled usage	(7,622)	(37,202)	(3,301)	(1,094)	(49,219)
Inventory and prepaid expenses	7,840	(40,870)	(8,084)	(560)	(41,674)
Accounts payable	1,414	28,701	3,397	(3,238)	30,274
Accrued payroll	2,690	558	60	669	3,977
Compensated absences	9,563	13	(701)	1,247	10,122
Other liabilities	(9,640)	(511)	(553)	(49)	(10,753)
Net cash provided (used) by operating activities	\$ 91,992	(42,619)	126,504	70,457	246,334
Reconciliation of cash, cash equivalents and investments at year end to specific assets included on the statement of net assets:					
Current assets:					
Cash, cash equivalents and investments	\$ 239,671	(103,738)	89,841	186,403	412,177
Restricted assets:					
Cash, cash equivalents and investments	138,058	-	-	-	138,058
Designated assets:					
Cash, cash equivalents and investments	130,410	132,766	416,743	279,209	959,128
Cash, cash equivalents and investments at year end	\$ 508,139	29,028	506,584	465,612	1,509,363

## City of Lamoni - Lamoni Municipal Utilities

### Notes to Financial Statements

December 31, 2004

#### (1) Summary of Significant Accounting Policies

##### A. General

The accompanying financial statements include only the Electric Utility, Gas Utility, Water Utility and Sewer Utility Funds of the City of Lamoni. Prior to January 1, 1994 Lamoni Municipal Utilities was considered a component unit of the City of Lamoni which consisted of the Electric Utility, Gas Utility, Water Utility and Sewer Utility Funds of the City of Lamoni and was governed by a separate Board of Trustees. As of January 1, 1994, the Board of Trustees of Lamoni Municipal Utilities was officially discontinued. As of that date, the Lamoni Municipal Utilities ceased to be a separate legal entity and a component unit of the City of Lamoni. Lamoni Municipal Utilities is now part of the City of Lamoni and is governed by the City Council. The Utilities provides electric, gas, water and sewer service to the citizens of Lamoni, Iowa. An audit of the cash basis financial statements was performed on the City of Lamoni for the year ended June 30, 2004. No portion of the financial information for the year ended June 30, 2004, nor the six months ended December 31, 2004, has been included in these financial statements. A copy of the City's audited financial statements may be obtained from the City's office.

##### A. Reporting Entity

For financial reporting purposes, the Lamoni Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities.

##### Jointly Governed Organizations

The Utilities participates in one jointly governed organization that provides goods or services to the customers of the Utilities but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. One Utilities employee is a member of the South Iowa Municipal Electric Cooperative Association Board.

##### B. Basis of Presentation

Proprietary Fund Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Utilities. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets presents the Utilities assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

The Utilities reports the following major proprietary funds:

Enterprise:

The Electric Fund is used to account for the operation and maintenance of the Utilities electric system.

The Water Fund is used to account for the operation and maintenance of the Utilities water system.

The Sewer Fund is used to account for the operation and maintenance of the Utilities sewer system.

The Gas Fund is used to account for the operation and maintenance of the Utilities gas system.

#### C. Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The proprietary funds of the Utilities apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles

Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Investments – The cash balances of most Utilities funds are pooled and invested. Interest earned on investments is recorded in the appropriate Enterprise Fund. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. The allowance for uncollectible accounts at December 31, 2004 was \$8,000. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due from and Due to Other Funds – During the course of their operation, the Electric Utility, Gas Utility, Water Utility and Sewer Utility Funds had transactions between funds. To the extent certain transactions between funds had not been paid or received as of December 31, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Inventories – Inventories are valued at the lower of cost (using the first-in/first-out method) or market. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Designated Assets – Funds set aside for payment of Enterprise Fund capital assets, insurance and debt. Other designated assets include customer deposits designated for refund to customers.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable bond resolutions.

Capital Assets – Capital assets, which include property, equipment and vehicles are reported in the applicable business type activities columns in the Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the Utilities as assets with estimated useful lives in excess of five years.

Capital assets of the Utilities are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Plant and distribution systems	20-50 years
Vehicles and equipment	5-10 years

Compensated Absences – Utilities employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the proprietary fund financial statements. The compensated absences liability has been computed based on rates of pay in effect at December 31, 2004.

Long-term Liabilities – In the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business type activities column in the Statement of Net Assets.

Fund Equity – In the proprietary fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2004, disbursements did not exceed the amount budgeted.

#### (2) Cash and Pooled Investments

The Utilities deposits in banks at December 31, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City of Lamoni – Lamoni Municipal Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Capital Assets

Capital assets activity for the year ended December 31, 2004 was as follows:

	Balance Beginning of Year (as restated, note 13)	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 137,124	-	-	137,124
Total capital assets not being depreciated	137,124	-	-	137,124
Capital assets being depreciated:				
Plant distribution systems	8,861,506	119,246	-	8,980,752
Vehicles and equipment	359,441	-	-	359,441
North woods lake	1,220,350	-	-	1,220,350
Computer mapping	48,987	-	-	48,987
Home pond water shed	36,500	-	-	36,500
Wastewater improvements	1,515,311	-	-	1,515,311
Total capital assets being depreciated	12,042,095	119,246	-	12,161,341
Less accumulated depreciation for:				
Plant distribution systems	6,967,513	238,743	-	7,206,256
Vehicles and equipment	356,289	1,290	-	357,579
North woods lake	436,049	61,018	-	497,067
Computer mapping	48,987	-	-	48,987
Home pond water shed	6,852	1,334	-	8,186
Wastewater improvements	59,249	75,766	-	135,015
Total accumulated depreciation	7,874,939	378,151	-	8,253,090
Total capital assets being depreciated, net	4,167,156	(258,905)	-	3,908,251
Total capital assets, net	\$ 4,304,280	(258,905)	-	4,045,375

Depreciation expense was charged to functions of the Utilities as follows:

Business type activities:

Electric	\$ 89,815
Gas	28,049
Water	138,444
Sewer	121,843
Total depreciation expense - business type activities	<u>\$ 378,151</u>



(4) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended December 31, 2004 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Revenue Bonds	\$ 1,958,265	689,635	824,265	1,823,635 <sup>(1)</sup>	168,000

(1) Water revenue bonds were sold at a discount; unamortized discount at December 31, 2004 totaled \$10,365

Revenue bonds

Four issues of unmatured revenue bonds, totaling \$1,834,000 are outstanding at December 31, 2004. These bonds bear interest at rates of 2.25-7.00% and mature in varying annual amounts ranging from \$20,000 to \$110,000, with the final maturity due in the year ending December 31, 2022.

The resolution providing for the issuance of the electric revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate electric revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) \$39,000 is required to be maintained in an electric revenue bond reserve account. The account is restricted for the purpose of paying the bond principal and interest payments whenever, for any reason, the funds in the electric revenue bond sinking account is insufficient to pay such principal and interest when due.

The resolution providing for the issuance of the sewer revenue bonds includes the following provision:

- (a) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

During the year ended December 31, 2004, the Utilities was in compliance with the revenue bond provisions.

Details of revenue bonds payable at December 31, 2004 are as follows:

Business type activities:	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding Dec. 31, 2004
Revenue bonds:						
Electric Revenue Bonds	June 1, 1992	4.00-7.00%	June 1, 2011	\$35,000-40,000	\$ 400,000	\$ 110,000
Water Revenue Refunding Bonds (payable to the City of Lamoni)	Nov. 15, 2004	2.25-3.80	June 1, 2011	90,000-110,000	700,000	700,000
SRF Sewer Revenue Bonds (payable to the City of Lamoni)	June 30, 2002	3.00	June 1, 2022	20,000-33,000	514,000	475,000
SRF Sewer Revenue Bonds (payable to the City of Lamoni)	Oct. 15, 2002	3.00	June 1, 2022	23,000-39,000	594,000	549,000
Total						<u>\$ 1,834,000</u>

A summary of the annual revenue note principal and interest requirements to maturity is as follows:

Year Ending December 31,	Electric Revenue Bonds	Interest	Sewer Revenue Bonds	Interest	Water Revenue Bonds	Interest	Total
2005	\$ 35,000	5,920	43,000	30,075	90,000	21,892	225,887
2006	35,000	3,680	45,000	28,755	95,000	18,670	226,105
2007	40,000	1,280	47,000	27,375	95,000	16,058	226,713
2008	-	-	48,000	25,950	100,000	13,105	187,055
2009	-	-	49,000	24,495	105,000	9,745	188,240
2010-2014	-	-	269,000	99,165	215,000	8,160	591,325
2015-2019	-	-	311,000	55,665	-	-	366,665
2020-2022	-	-	212,000	9,630	-	-	221,630
Total	<u>\$ 110,000</u>	<u>10,880</u>	<u>1,024,000</u>	<u>301,110</u>	<u>700,000</u>	<u>87,630</u>	<u>2,233,620</u>

(5) Due From and Due to Other Funds

The detail of interfund receivables and payables at December 31, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
Gas	Water	<u>\$ 125,000</u>

(6) Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by

state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utilities are required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Utilities contributions to IPERS for the years ended December 31, 2004, 2003 and 2002 were \$31,781, \$31,369 and \$31,531, respectively, equal to the required contributions for each year.

(7) Interest Cost

During the year ended December 31, 2004, no interest costs were capitalized since there were no qualifying assets. Interest cost incurred and charged to expenses for the year ended December 31, 2004 totaled \$88,576.

(8) Workers' Compensation

The City of Lamoni is a member of the Iowa Municipalities Workers' Compensation Association (IMWCA) which provides workers' compensation coverage to its members. On June 15, 1988, the IMWCA issued \$33 million in bonds and used the proceeds to create a claims payment fund. The members own an interest of the assets of the claims payment fund. The general obligation debt was retired in past years.

(9) Risk Management

The Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) State Revolving Fund (SRF) Loan

During the year ended December 31, 2001, the Utilities received \$298,000 from the Iowa Department of Natural Resources Drinking Water State Revolving Fund loan program. The loan was made to the City of Lamoni and the City passed the money through to the Utilities for their water improvement project. The Utilities will repay the loan to the City who will repay the loan program. It is the sole responsibility of the City of Lamoni to repay the loan because it is a general obligation of the City.

(11) Water Revenue Refunding Bonds

During the year ended December 31, 2004, the Utilities received \$700,000 to refund the 1993 Water Revenue Bonds. The bond proceeds were received directly by the Utilities, but the loan agreement is in the name of the City of Lamoni. The Utilities will make payments on the bonds to the City who will repay the lender. The loan is to be paid from the revenues of the Utilities and does not represent a general obligation of the City.

(12) State Revolving Fund (SRF) Loan

During the year ended December 31, 2002, the Utilities received \$594,000 and \$514,000 from the Iowa Department of Natural Resources Sewage Treatment Works Financing

Program. The loan was made to the City of Lamoni and the City passed the money through to the Utilities for their wastewater treatment system project. The Utilities will repay the loan to the City who will repay the loan program. The loan is to be paid from the revenues of the Utilities and does not represent a general obligation of the City.

(13) Prior Period Adjustment

The 2003 additions to the electric distribution system were depreciated with a 2 year class life instead of a 20 year class life in the prior year. An adjustment has been made to the beginning accumulated depreciation and net assets accounts in the Electric Fund to correct this misstatement. Also, the asset class life has been corrected so the current and future years depreciation amount will be accurate.

(14) Related Party Transactions

The Utilities had no business transactions between the Utilities and City officials during the year ended December 31, 2004.

(15) Contributions From Other Governments

Contributions restricted for capital assets are credited directly to contributions. Depreciation recognized on the capital assets acquired or constructed through contributions is offset against contributions.

(16) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – Management's Discussion and Analysis – for State and local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended December 31, 2004. The statements create new basic financial statements for reporting the Utilities financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type.

## Required Supplementary Information

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City of Lamoni - Lamoni Municipal Utilities

Budgetary Comparison Schedule of  
Receipts, Disbursements and Changes in Balances -  
Budget (Cash Basis) and Actual -  
Proprietary Funds

Required Supplementary Information

Year ended December 31, 2004

	Proprietary Funds Actual	Budgeted Amounts	Variance
Revenues:			
Use of money and property	\$ 31,189	-	31,189
Charges for service	3,051,835	2,866,389	185,446
Miscellaneous	91,415	141,100	(49,685)
Total receipts	<u>3,174,439</u>	<u>3,007,489</u>	<u>166,950</u>
Expenses:			
Business type activities	<u>3,286,907</u>	<u>3,473,650</u>	<u>186,743</u>
Deficiency of receipts under disbursements	(112,468)	(466,161)	(19,793)
Other financing sources	<u>-</u>	<u>456,000</u>	<u>(456,000)</u>
Deficiency of receipts and other financing sources under disbursements	(112,468)	(10,161)	(475,793)
Balances - beginning of year	4,246,574	1,620,220	2,626,354
Prior period adjustment (note 13)	<u>16,080</u>	<u>-</u>	<u>16,080</u>
Balances - end of year	<u>\$ 4,150,186</u>	<u>1,610,059</u>	<u>2,150,561</u>

\* The budget is not prepared on a GAAP basis because capital outlay and other financing sources are included. These items are reflected on the balance sheet rather than in the "Actual" column above.

See accompanying independent auditors' report.

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City of Lamoni - Lamoni Municipal Utilities

Notes to Required Supplementary Information – Budgetary Reporting

Year ended December 31, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. There were no budget amendments during the year.

During the year ended December 31, 2004, disbursements did not exceed the amounts budgeted.

Other Supplementary Information



City of Lamoni - Lamoni Municipal Utilities

## City of Lamoni – Lamoni Municipal Utilities

## Schedule of Property, Plant and Equipment

December 31, 2004

	Electric Utility Fund	Gas Utility Fund	Water Utility Fund	Sewer Utility Fund	Total
Cost:					
Land	\$ 3,402	2,575	126,496	4,651	137,124
Plant and improvements	913,239	108,451	944,088	62,400	2,028,178
Plant production equipment	918,891	66,081	290,194	267,884	1,543,050
Engineering service	22,681	-	-	-	22,681
Distribution system	445,924	228,094	204,156	21,133	899,307
Distribution system extensions	1,798,254	660,622	1,047,368	899,406	4,405,650
Interconnection	81,886	-	-	-	81,886
Mobile equipment	39,225	60,474	31,233	21,703	152,635
Office equipment	73,337	39,626	25,272	14,819	153,054
Tools	14,451	24,727	9,687	4,887	53,752
North woods lake	-	-	1,220,350	-	1,220,350
Computer mapping	23,537	16,235	6,423	2,792	48,987
Home pond watershed	-	-	36,500	-	36,500
Wastewater improvements	-	-	-	1,515,311	1,515,311
Total	\$ 4,334,827	1,206,885	3,941,767	2,814,986	12,298,465
Accumulated depreciation:					
Plant and improvements	\$ 594,022	70,189	690,075	38,476	1,392,762
Plant production equipment	882,580	56,000	263,637	247,410	1,449,627
Engineering service	22,681	-	-	-	22,681
Distribution system	397,646	214,383	145,793	15,234	773,056
Distribution system extensions	1,569,835	468,376	809,078	638,955	3,486,244
Interconnection	81,886	-	-	-	81,886
Mobile equipment	39,225	60,474	31,233	21,703	152,635
Office equipment	73,003	39,188	25,189	14,787	152,167
Tools	13,772	24,666	9,517	4,822	52,777
North woods lake	-	-	497,066	-	497,066
Computer mapping	23,537	16,236	6,423	2,792	48,988
Home pond watershed	-	-	8,186	-	8,186
Wastewater improvements	-	-	-	135,015	135,015
Total	\$ 3,698,187	949,512	2,486,197	1,119,194	8,253,090

See accompanying independent auditors' report.

## City of Lamoni – Lamoni Municipal Utilities

## Schedule of Operating Revenues

December 31, 2004

	Electric Utility Fund	Gas Utility Fund	Water Utility Fund	Sewer Utility Fund	Total
Charges for service:					
Electric and gas:					
Residential	\$ 615,375	568,409	-	-	1,183,784
Commercial	778,631	134,384	-	-	913,015
Power	137,280	47,822	-	-	185,102
Rural	47,916	-	-	-	47,916
Security lights	7,839	-	-	-	7,839
Interruptible	-	72,894	-	-	72,894
Transportation	-	20,220	-	-	20,220
Water	-	-	404,451	-	404,451
Sewer rental	-	-	-	216,614	216,614
	<u>1,587,041</u>	<u>843,729</u>	<u>404,451</u>	<u>216,614</u>	<u>3,051,835</u>
Miscellaneous:					
Discounts and penalties	913	750	381	206	2,250
Merchandise sales and services	253	33	83	-	369
Miscellaneous	76,097	5,319	2,886	4,494	88,796
	<u>77,263</u>	<u>6,102</u>	<u>3,350</u>	<u>4,700</u>	<u>91,415</u>
Total operating revenues	<u>\$ 1,664,304</u>	<u>849,831</u>	<u>407,801</u>	<u>221,314</u>	<u>3,143,250</u>

See accompanying independent auditors' report.

## City of Lamoni – Lamoni Municipal Utilities

## Schedule of Operating Expenses

December 31, 2004

	Electric Utility Fund	Gas Utility Fund	Water Utility Fund	Sewer Utility Fund	Total
Plant operation:					
Operation:					
Supervision and labor	\$ 106,076	15	42,627	37,205	185,923
Purchased power	868,180	-	-	-	868,180
Fuel	31,052	608,603	-	-	639,655
Utilities	10,879	1,152	11,412	20,230	43,673
Chemicals	-	-	39,964	-	39,964
Supplies	2,114	454	4,204	2,433	9,205
Insurance	22,246	5,890	9,087	3,124	40,347
Miscellaneous	-	27	6,858	6,900	13,785
	<u>1,040,547</u>	<u>616,141</u>	<u>114,152</u>	<u>69,892</u>	<u>1,840,732</u>
Maintenance:					
Labor	7,444	1,872	9,771	6,460	25,547
Materials and contract labor	3,840	650	14,022	10,434	28,946
	<u>11,284</u>	<u>2,522</u>	<u>23,793</u>	<u>16,894</u>	<u>54,493</u>
Total plant operation	<u>\$ 1,051,831</u>	<u>618,663</u>	<u>137,945</u>	<u>86,786</u>	<u>1,895,225</u>
Distribution:					
Operation:					
Supervision and labor	\$ 33,911	19,597	12,311	5,454	71,273
Truck and equipment	8,118	3,690	2,387	1,766	15,961
Supplies	3,678	2,139	1,569	400	7,786
Insurance	11,622	1,115	4,098	2,445	19,280
Property taxes	27,213	815	-	-	28,028
Miscellaneous	1,048	701	128	45	1,922
	<u>85,590</u>	<u>28,057</u>	<u>20,493</u>	<u>10,110</u>	<u>144,250</u>
Maintenance:					
Labor	29,885	3,028	1,861	4,216	38,990
Materials and contract labor	15,027	2,372	7,890	1,614	26,903
	<u>44,912</u>	<u>5,400</u>	<u>9,751</u>	<u>5,830</u>	<u>65,893</u>
Total distribution	<u>\$ 130,502</u>	<u>33,457</u>	<u>30,244</u>	<u>15,940</u>	<u>210,143</u>

See accompanying independent auditors' report.

## City of Lamoni – Lamoni Municipal Utilities

## Schedule of Operating Expenses

December 31, 2004

	Electric Utility Fund	Gas Utility Fund	Water Utility Fund	Sewer Utility Fund	Total
Accounting and collection:					
Salaries and wages	\$ 39,405	19,540	10,230	4,864	74,039
Meter reading labor	7,617	8,276	7,649	-	23,542
Office supplies	5,332	2,663	1,404	656	10,055
Telephone	4,484	2,090	1,536	822	8,932
Professional fees and contracts	6,825	3,494	1,926	789	13,034
Bad debt expense (recoveries), net	1,027	1,996	1,127	771	4,921
Miscellaneous	984	457	430	182	2,053
Total accounting and collection	\$ 65,674	38,516	24,302	8,084	136,576
Administration:					
Salaries and wages	\$ 24,107	11,600	6,192	3,350	45,249
FICA and IPERS	40,178	12,529	14,039	9,169	75,915
Professional services	3,000	-	5,242	2,668	10,910
Council fees	300	300	300	300	1,200
Office supplies	88	49	30	9	176
Administrative publications and memberships	5,230	2,656	871	21	8,778
Health and life insurance	143,791	59,561	22,630	11,691	237,673
Use tax expense	2,383	286	-	446	3,115
Employee education and travel	7,497	10,528	2,097	1,858	21,980
Holiday, vacation, personal, sick and emergency leave	52,832	21,950	10,517	6,376	91,675
Inventory control, materials and labor	3,462	1,679	875	437	6,453
City payment	30,432	-	-	-	30,432
City street lighting	12,000	-	-	-	12,000
Community donation	333	160	80	43	616
Miscellaneous	5,620	1,824	14,926	824	23,194
Total administration	\$ 331,253	123,122	77,799	37,192	569,366

Independent Auditors' Report on Compliance  
and on Internal Control over Financial Reporting

# CLINE, DEVRIES & ALLEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Lamoni - Lamoni Municipal Utilities, Iowa, as of and for the year ended December 31, 2004, and have issued our report thereon dated January 27, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the City of Lamoni - Lamoni Municipal Utilities financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities operations for the year ended December 31, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item III-C-04.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lamoni - Lamoni Municipal Utilities internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Lamoni - Lamoni Municipal Utilities ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Lamoni - Lamoni Municipal Utilities and other parties to whom the City of Lamoni - Lamoni Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Lamoni - Lamoni Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

January 27, 2005  
Ames, Iowa



City of Lamoni - Lamoni Municipal Utilities

City of Lamoni - Lamoni Municipal Utilities

Schedule of Findings

Year ended December 31, 2004

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, one of which is considered to be a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Lamoni - Lamoni Municipal Utilities

Schedule of Findings

Year ended December 31, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04     Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City of Lamoni - Lamoni Municipal Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will review the procedures as suggested.

Conclusion - Response acknowledged. The City of Lamoni - Lamoni Municipal Utilities should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of Lamoni - Lamoni Municipal Utilities

Schedule of Findings

Year ended December 31, 2004

Part III: Other Findings Related to Required Statutory Reporting:

III-A-04 Official Depositories – A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2004.

III-B-04 Certified Budget – Disbursements during the year ended December 31, 2004 did not exceed the amounts budgeted.

III-C-04 Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements noted were for flowers and refreshments.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the Utilities should establish written policies and procedures, including the requirement for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

III-D-04 Travel Expense – No disbursements of Utilities money for travel expenses of spouses of Utilities employees were noted.

III-E-04 Business Transactions – No business transactions between the Utilities and Utilities employees or City officials were noted.

III-F-04 Bond Coverage – Surety bond coverage of Utilities employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

III-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they did not include a summary of revenues as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The Utilities should comply with Chapter 372.13(6) of the Code of Iowa and include the required information in the minutes publication.

Response – We will do so.

Conclusion – Response accepted.

City of Lamoni - Lamoni Municipal Utilities

Schedule of Findings

Year ended December 31, 2004

- III-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities investment policy were noted.
- III-I-04 Revenue Notes – The Utilities has complied with the electric and sewer revenue note provisions.
- III-J-04 Outstanding Checks – Per Chapter 556.11 of the Code of Iowa, checks that are still outstanding after three years should be reported to the State Treasurer annually by November 1st. The Utilities did not do this.

Recommendation – The Utilities should comply with Chapter 556.11 of the Code of Iowa.

Response – We will do so.

Conclusion – Response accepted.